Budget Consultation Paper
Fall 2000

BRITISH COLUMBIA

Ministry of Finance and
Corporate Relations

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Budget Consultation Paper

Fall 2000

Setting Priorities for a Growing Economy

BRITISH COLUMBIA

Ministry of Finance
and Corporate Relations
Honourable Paul Ramsey
Minister

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BRITISH COLUMBIA

October 31, 2000

To the Chair, Select Standing Committee on Finance and Government Services.

In accordance with section 3 of the *Budget Transparency and Accountability Act*, I am pleased to submit a budget consultation paper for your Committee's consideration. I look forward to receiving the Committee's report on its consultations by December 31, 2000.

Paul Ramsey

Honourable Paul Ramsey
Minister of Finance and Corporate Relations

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Table of Contents

	Page
Foreword	4
SUMMARY AND KEY ISSUES	5
PART A: THE 2000/01 BUDGET SITUATION	
A1. An Overview of Provincial Finances	6
A2. Revenue	
— Box 1: Federal Contribution	8
— Box 2: Taxes	9
A3. Spending	11
A4. A Balanced Budget is Expected in 2000/01	12
A5. Debt and Capital Spending	13
PART B: BUDGET 2001 — ISSUES AND OPTIONS	
B1. The Economic Outlook	15
B2. A Balanced Budget in 2001/02	16
B3. Revenue Issues and Options	17
B4. Spending Issues and Options	21
B5. Capital Spending Issues and Options	24
B6. Debt Issues and Options	26
PART C: BUDGET 2001 — WHAT'S IMPORTANT TO YOU?	
Questionnaire	27
APPENDIX:	
Revised Economic and Financial Forecast	31

Foreword from the Honourable Paul Ramsey, Minister of Finance

Over the past year, the government has introduced legislative changes to the process of budgeting and reporting on provincial finances. In March, I introduced the *Budget Transparency and Accountability Act,* which requires more comprehensive reporting and provides greater provincial government accountability for the state of public finances and the use of tax dollars. Another important change is the adoption of "taxable income" as the basis of provincial income tax. This makes British Columbia's tax rates more clear. In June, I introduced the *Balanced Budget Act,* which sets targets for government's bottom line and penalties for failure to achieve them.

With balanced books in 1999/2000 and a forecast balance for 2000/01, the Premier has committed to maintaining a balanced budget in 2001/02.

One of the requirements of the *Budget Transparency and Accountability Act* is for the Minister of Finance and Corporate Relations to make public a budget consultation paper and refer it to the Select Standing Committee on Finance and Government Services. In compliance with the *Act,* I am pleased to make this paper available to the Committee, and to British Columbians, in both print and electronic formats.

The purpose of this paper is:

- To provide British Columbians with information on the province's economic and fiscal position and outlook;
- To seek the views of British Columbians on how government should manage provincial finances; and more specifically,
- To outline key issues for the 2001/02 budget.

I expect that this paper will help frame the pre-budget consultations of the Committee, which will hold hearings around British Columbia and report to the public by the end of this year.

I hope you will take some time to read this paper, think about the issues and discuss them with your family, friends and colleagues. I encourage you to respond to the questionnaire at the back by fax, telephone or the Internet. If you want more information on government finances, see the "Reports and Publications" section of the Ministry of Finance Web site (www.fin.gov.bc.ca).

I look forward to receiving your views on these important questions.

Paul Ramsey

SUMMARY AND KEY ISSUES

- British Columbia's economy exceeded expectations in 1999 and to date in 2000.
- As a result, there was a $52 million budget surplus in 1999/2000.
- A balanced budget is expected again in 2000/01.
- In 2001/02, government revenue should continue to strengthen. However, higher energy prices and a cooling world economy could also affect the British Columbia economy.
- Looking ahead to the next budget, there are several key issues:
  - — How much more should be spent on key services such as health care and education?
  - — Should taxes be cut further and, if so, which taxes?
  - — The public has made it clear that it wants the budget to remain balanced. The government is committed to keeping the budget balanced. How can we boost spending on priorities such as health care and continue to cut taxes while maintaining a balanced budget?
  - — Should the government give a higher priority to reducing debt and place lower priority on spending increases and tax cuts?

The provincial government is seeking the views of British Columbians on these and other key questions to help develop the next provincial budget.

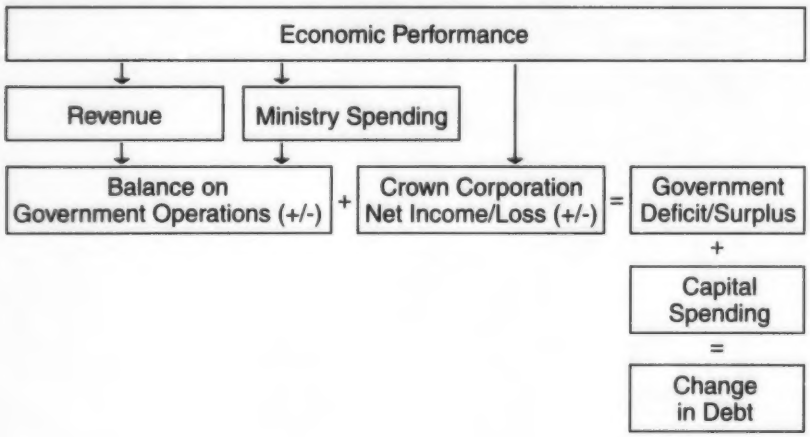
Please read the background information in this document and respond to the questions on pages 28-30. Send your answers to the Select Standing Committee on Finance and Government Services at the address noted on page 27.

PART A: THE 2000/01 BUDGET SITUATION

A1. An Overview of Provincial Finances

- The diagram below is a simplified representation of how the major components of provincial finances fit together.[1]

An Overview of Provincial Finances



- The government includes Crown corporations in its bottom line. This means that the annual surplus or deficit is equal to the balance on government operations plus the net income of Crown corporations.

- When the government runs a budget deficit or builds capital projects such as schools, hospitals, roads or bridges, it has to borrow money. This adds to debt.

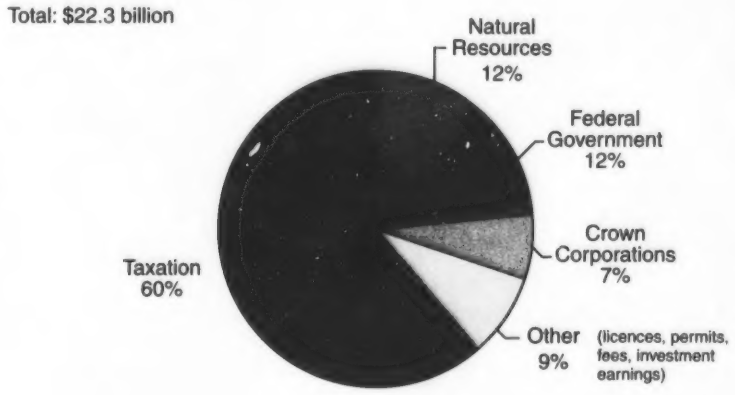
- If the government has a budget surplus that is bigger than the amount of money it borrows to build schools, hospitals, roads or other capital facilities, debt will fall.

[1] Not shown are various sub-components that, under generally accepted accounting policies, convert the deficit/surplus to a cash basis.

A2. Revenue

- Revenue grows in line with the economy. A healthy economy provides the government with a strong revenue base, and helps to ensure public services remain affordable.
- About 88 per cent of British Columbia government revenue is generated from provincial sources while the remaining 12 per cent is from the federal government.
- Provincial government revenue comes from personal and business taxation, natural resources (such as forest products and natural gas), Crown corporations, and other sources such as fees and licences and investment earnings.
- Revenues of $22.3 billion are forecast for 2000/01, about $5,500 per person.
- Personal income tax is the largest source of provincial revenue, accounting for about 26 per cent in 2000/01. Social service tax (sales tax), which is paid by businesses and individuals, accounts for the second largest portion at just under 16 per cent. The chart shows the contribution of the major revenue sources.

Revenue Sources, 2000/01



Source: Ministry of Finance and Corporate Relations, *Quarterly Report*, April – June 2000

- The revenue forecast will be updated in the *Quarterly Reports* to be published in November 2000 and February 2001.

Box 1: Federal Contribution

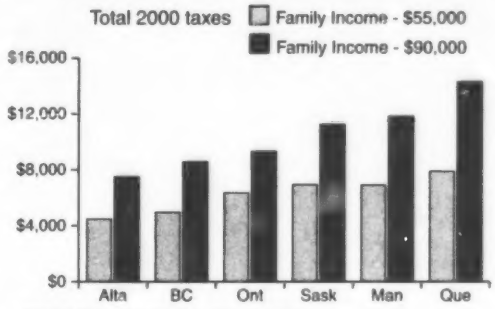
- The federal government's contribution to British Columbia revenue comes mainly through the Canada Health and Social Transfer (CHST).
- The CHST helps to support health, post-secondary education, early childhood development and other social programs.
- During the first half of the 1990s, the federal government steadily cut back the amount it transfers to the provinces in support of these programs.
- In response to pressure at federal-provincial meetings held in August 2000, the federal government restored some of the cuts to CHST in September 2000. This included an increased contribution to child care.
- Nevertheless, federal contributions make up less than 15 per cent of British Columbia's spending on health, education and social programs. Fifteen years ago, Ottawa was covering more than 25 per cent of these costs.

Box 2: Taxes

Personal Taxes

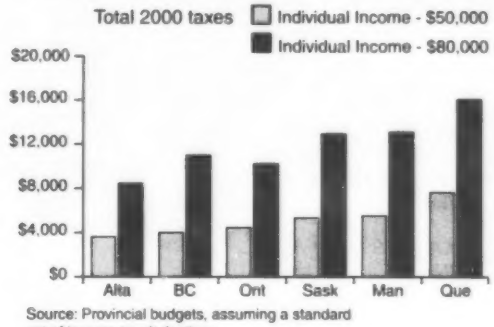
- The charts below show that for most individuals and families, British Columbia continues to have the second lowest level of taxes of all the provinces. Taxes include provincial personal income tax, sales and fuel taxes, property taxes, Medical Services Plan premiums and payroll taxes levied by provincial and local governments.

Interprovincial Tax Comparison – Families



Source: Provincial budgets, assuming a standard set of income tax deductions

Interprovincial Tax Comparison – Individuals



Source: Provincial budgets, assuming a standard set of income tax deductions

Top Marginal Personal Income Tax Rates

- The marginal tax rate is the total tax paid on an extra dollar earned. It is the combined result of federal and provincial tax rates. For example, the top marginal rate in British Columbia in 2001 will be the sum of a provincial rate of 19.7 per cent and a federal rate of 29 per cent.
- In 2001, British Columbia's highest marginal income tax rate, paid on income in excess of about $100,000, will fall to 48.7 per cent. This will be the second highest in the country behind Quebec. This tax rate is paid by the top 4 per cent of income earners.
- The following table shows top marginal tax rates, including federal and provincial tax rates, in effect for 1998, 2000 and 2001.

Table 1:
TOP MARGINAL PERSONAL INCOME TAX RATES FOR 1998, 2000 and 2001*

	Province									
Tax year	**BC**	**Alta**	**Sask**	**Man**	**Ont**	**Que**	**NB**	**NS**	**PEI**	**Nfld**
1998	54.2	45.6	51.7	50.1	50.3	52.5	50.4	49.7	50.3	53.3
2000	51.3	43.7	49.7	48.1	47.9	50.7	48.8	48.8	48.8	51.3
2001	48.7	39.5	45.0	46.5	46.4	49.2	46.8	47.3	47.4	48.6

* Based on tax reductions announced in federal economic statement and budget update of October 18, 2000.

☞

Provincial Business Tax Rates

- In 2001, British Columbia will be tied with New Brunswick for the lowest small business tax rate in the country at 4.5 per cent. Other business tax rates are comparable to most other provinces, although Alberta's rates are generally lower.

Table 2:
PROVINCIAL BUSINESS TAX RATES — 2000

	Province									
	BC	Alta	Sask	Man	Ont	Que	NB	NS	PEI	Nfld
Small Business Corporate Tax Rates	4.75[1]	6.0	8.0	7.0	8.0	9.04	4.5	5.0	7.5	5.0
General Corporate Tax Rates	16.5	15.5	17.0	17.0	14.5	9.04	17.0	16.0	16.0	14.0
Corporation Capital Tax Rates — General Corporations[2]	0.3	0.0	0.6	0.3/0.5	0.3	0.64	0.3	0.5/0.25	0.0	0.0

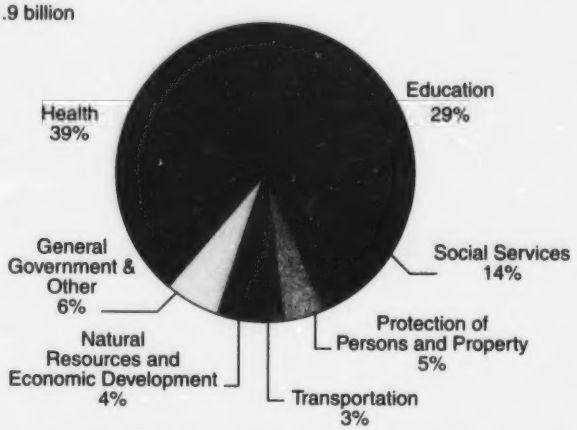
[1] Falls to 4.5 per cent in 2001.
[2] Higher rates apply to financial institutions. See the *Financial and Economic Review* on the Ministry of Finance Web site for more information (www.fin.gov.bc.ca).

A3. Spending

- As shown in the first *Quarterly Report*, ministry spending is projected to total $21.9 billion in 2000/01, about $5,400 per person.

Spending by Function, 2000/01

Total: $21.9 billion



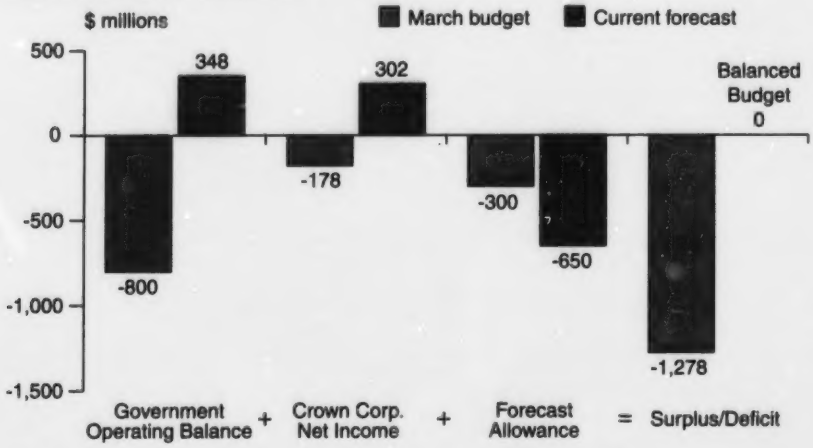
Source: Ministry of Finance and Corporate Relations, *Quarterly Report*, April – June 2000

- In 2000/01, the government expects to spend $18 billion on health, education and social services.
- In 1990/91, the government spent just under $11 billion.
- So in 10 years, spending on health, education and social services has risen $7 billion.
- Health spending accounts for the largest share of ministry spending, followed by education and social services. Over the last 10 years, health care spending has grown $3.5 billion.
- Most public services can only be delivered by people.
- As a result, pay and benefits for teachers, nurses, doctors and other people who provide services account for about two-thirds of ministry spending.

A4. A Balanced Budget is Expected in 2000/01

- The government reports its bottom-line based on the combined results of government operations and Crown corporations and agencies.
- The first *Quarterly Report* projects that the government's budget will be balanced in 2000/01. This improvement from the $1.3 billion deficit forecast in the budget reflects stronger revenue growth and higher net income of Crown corporations than projected in the March 2000 budget.
- To ensure that a balanced budget is achieved in 2000/01, the forecast includes an allowance to cover additional spending pressures in areas such as health care, and uncertainties about revenue during the remainder of the year.
- The outlook will be updated in the second *Quarterly Report* at the end of November. While revenue growth is continuing to strengthen due to higher energy prices, this growth may not continue into next year.

2000/01 Budget Situation



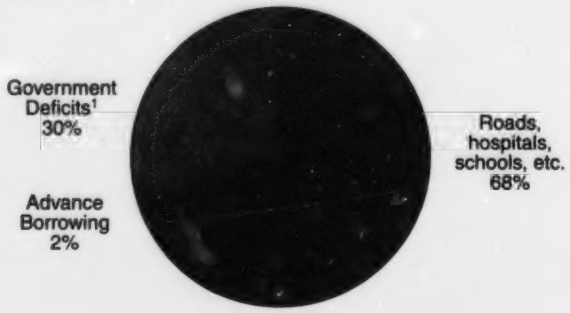
Source: Ministry of Finance and Corporate Relations, *Quarterly Report*, April – June 2000

A5. Debt and Capital Spending

- Government debt arises from two sources:
  - — Annual operating deficits; and
  - — Borrowing to construct buildings and roads and to buy equipment ("capital") to meet the needs of a growing population.

Provincial Debt

Total: $35.1 billion at March 31, 2001



[1] Government debt from deficits less debt from roads and ferry infrastructure.

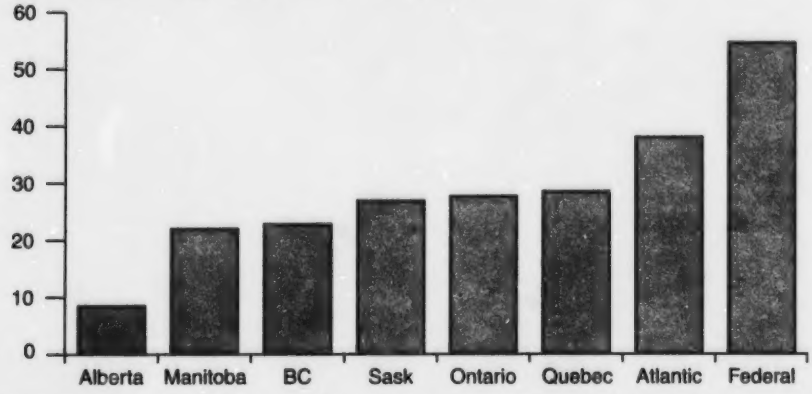
Source: Ministry of Finance and Corporate Relations, *Quarterly Report*, April – June 2000

- Government policy is to spread the cost of buildings, roads and equipment over the years that these facilities will be used, similar to a family taking out a loan to buy a car or a mortgage to buy a home.
- This ensures that both current and future generations help pay for facilities they will use.
- About 70 per cent or $25 billion of provincial debt paid for schools, hospitals, roads, ferries, SkyTrain, hydro dams and other facilities.
- The province's buildings, roads and equipment would cost $140 billion to replace.
- The other 30 per cent of debt paid for annual operating deficits. British Columbia, like most provinces, started to incur deficits beginning in the mid-1970s.
- In 2000/01, provincial debt will rise $0.9 billion, providing major improvements to 29 hospitals and about 200 schools, post-secondary construction, road and bridge upgrading and SkyTrain expansion.

- Compared to the size of its economy, British Columbia's debt remains affordable.
- The ratio of taxpayer-supported debt[2] to gross domestic product (GDP — a measure of the size of the provincial economy) is a widely-used measure of affordability.
- In the March 1999 budget, the government established a taxpayer-supported debt range of 22 per cent of GDP to 27 per cent.
- Debt as a percentage of GDP is expected to be at the low end of this range at March 31, 2001, according to the Toronto Dominion Bank.
- As a result, British Columbia ranks ahead of most provinces.

Government Debt

As a percentage of GDP at March 31, 2001



Source: Toronto Dominion Bank, September 2000

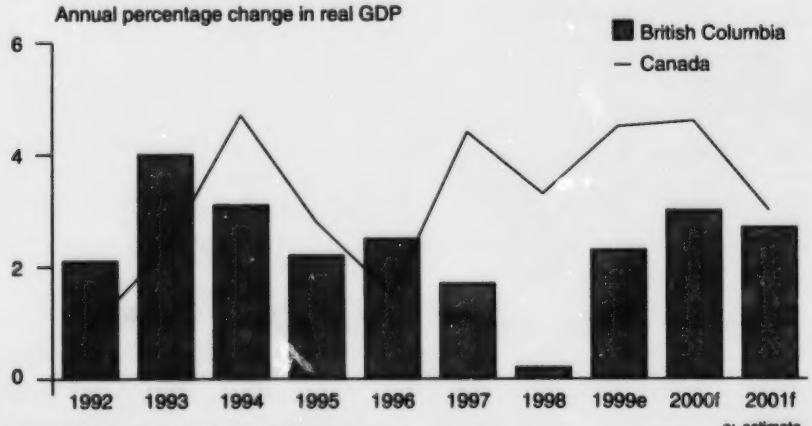
[2] This is debt for which the provincial government is responsible for paying interest and re-paying principal. It excludes the debt of BC Hydro and BC Rail, which are self-supporting Crown corporations.

B1. The Economic Outlook

- The British Columbia economy has performed better than expected so far in 2000. Strong growth in the rest of North America and improving conditions in Asia have boosted exports. Consumer spending has also picked up. Economic growth in 2000 is expected to reach 3 per cent.

- In 2001, economic growth in the province is expected to moderate to 2.7 per cent, as the North American economy remains strong, but grows more slowly.

Growth in the Economy



Sources: Statistics Canada; Ministry of Finance and Corporate Relations, *Quarterly Report*, April – June 2000

- The Appendix provides more information on the current economic forecast.

- The Minister of Finance's Economic Forecast Council will provide advice on the 2001 outlook when it meets in January 2001.

B2. A Balanced Budget in 2001/02

Fiscal Outlook

- In 1999/00, unexpectedly strong revenue and net income from Crown corporations allowed the government to spend more on programs, cut taxes and generate a surplus of $52 million, $1.6 billion better than planned.
- In 2000/01, the government is projecting a balanced budget based on stronger-than-expected revenues and Crown corporation earnings to date. A large part of the improvement is due to high energy prices.
- Not all of these favourable revenue trends are likely to recur in 2001/02.
- In addition, the public is demanding more and better health care, education and other services.
- Many people want additional provincial tax cuts.
- The public also wants the government to keep the budget balanced.
- A sustainable financial plan requires the budget to be balanced over the medium term.

Budget Trade-offs

- There are trade-offs among higher spending, tax cuts and maintaining a balanced budget:
  - — If the government is to balance the budget in 2001/02, it must hold spending equal to revenue.
  - — Tax cuts will reduce revenue.
  - — Tax cuts will limit the amount that spending can increase if the budget is to remain balanced.
- There are also trade-offs involving the budget performance of Crown corporations.
- If Crown corporation net income falls, the government's bottom line deteriorates.
- If Crown corporation net income is positive:
  - — The government's bottom line may improve, or
  - — The profits could be used to help pay for services such as health care and education, or
  - — The profits could help fund tax cuts, or
  - — The government could permit the profits to be kept by the corporations and used to expand or improve their services.

B3. Revenue Issues and Options

Revenue Outlook

- Government revenue grows roughly in line with total income in the provincial economy, offset by tax cuts introduced in recent budgets.

- Based on the current economic forecast and accounting for previously announced provincial tax cuts, revenue is expected to range between $22.8 and $23.6 billion in 2001/02 (see Appendix for details).

- The range reflects upside and downside risks to the revenue forecast. For example, higher energy prices could depress global economic growth, which might reduce provincial revenue growth. On the other hand, if world growth and energy prices both remain high, provincial revenue could be stronger than forecast.

- If new tax cuts occur, revenue will be reduced.

Tax Options and Considerations

- In evaluating different options for cutting taxes or making other tax policy changes, the government generally takes into account the effect on:
  - — Provincial revenues and the fiscal plan — tax cuts reduce revenue in most cases[3].
  - — British Columbia's desirability as a place to live, work and invest.
  - — The fairness of the tax system. In other words who benefits from the change, or who is worse off? Of course, there are many different views on what represents a fair tax system. In Canada, it has generally been accepted that people with higher incomes should pay proportionately more taxes.
  - — The complexity of the tax system, both in terms of compliance costs for taxpayers and administrative costs for government.
  - — Achieving the government's environmental objectives — for example, by shifting taxes from products and activities that are good for the environment to those that are bad for the environment (with no net tax increase).
  - — The public's acceptance of the provincial tax system.

- Each year the tax changes under consideration range from relatively expensive reductions in major taxes, such as the personal income tax, to smaller adjustments in taxes which could have a significant impact on certain sectors or groups.

- Table 3 shows a selection of objectives the government could choose to address, an option to accomplish the objective, and the associated revenue change in the first year.

[3] See WEFA Canada, *Good and Bad Arguments for Tax Cuts* (October 1999) and Stokes Economic Consulting and CCG Consulting Group, *The Economic Impact of Selected Tax Reductions* (for the Institute of Chartered Accountants of British Columbia, January 2000).

Table 3:
REVENUE OPTIONS — Some Examples

The options presented throughout this paper are purely illustrative. They are not government proposals or recommendations, but are presented to show some possible ways of changing current policy and to show the trade-offs involved in setting the annual budget.

Objective	*Option*	*Impact on Bottom Line 2001/02 ($ millions)*
		+ Means bottom line improves, − means bottom line gets worse
Individuals and Families		
Ensure that an additional 40,000 taxpayers no longer have to pay income tax and provide a small benefit to all taxpayers	• Increase the basic personal income tax credit amount from $8,000 to $8,500	−$75
Make British Columbia's income tax the lowest in Canada	• Reduce personal income taxes for an average family earning $55,000 by $1,000 per year	−$1,800
Increase benefits available to all low income individuals and families	• Increase the refundable sales tax credit to $100 from $50	−$45
Reduce top marginal income tax rate to average of other provinces.	• Lower the top marginal tax rate to 46.3 per cent from 48.7 per cent	−$155
Increase sales tax to pay for other tax cuts and spending increases	• Increase sales tax by 1 per cent	+$430
Reduce tobacco consumption	• Increase tobacco tax by $1 carton	Up to +$20
Competitiveness		
Reduce income taxes for small businesses by up to $1,000 annually	• Reduce the small business tax rate to 4 per cent	−$15
Reduce cost of investing in new plant and equipment	• Eliminate the provincial sales tax on machinery and equipment	−$120-140
Improve competitiveness of provincial corporate income tax	• Reduce the general corporate income tax rate by one percentage point to 15.5 per cent	−$60
Cut taxes for larger corporations	• Eliminate the corporation capital tax, except for financial institutions	−$380

Table 3 — *Continued*
REVENUE OPTIONS — Some Examples

The options presented throughout this paper are purely illustrative. They are not government proposals or recommendations, but are presented to show some possible ways of changing current policy and to show the trade-offs involved in setting the annual budget.

Objective	*Option*	*Impact on Bottom Line 2001/02 ($ millions)*
		+ Means bottom line improves, − means bottom line gets worse
Sector Specific Initiatives		
Improve competitiveness of Vancouver airport and improve affordability of intra-provincial routes	• Air transportation — Reduce the domestic jet fuel tax rate from 5 cents/litre to 3 cents/litre	−$11
Increase attractiveness of investing in basic resource extraction	• Resource sector — Allow logging and mining to qualify for the 3 per cent investment tax credit	−$14
Tax Shifting*		
Reduce greenhouse gas emissions from vehicles	• Discussion paper with several options will be released shortly	NA
Reduce polluting activities	• Pursue additional tax-shifting pilot projects	NA

* Tax shifting means moving taxes from activities and products that are good for the environment to those that harm the environment (with no net tax increase).

User Fees and Government Asset Sales

Like other governments in Canada, the provincial government recovers some of its costs of providing goods and services though user fees. Instead of raising general taxes, the government believes that user fees are a fairer way to help pay for these services.

Over time, however, user fees have not kept up with the government's costs. This means that more tax dollars are used to pay for these services, leaving less money for other priorities.

The government also has a large investment in properties, assets and business operations in ministries and Crown corporations. Some of these could be sold to raise revenue.

The following is a list of options.

Table 4:
USER FEE AND ASSET SALES OPTIONS — Some Examples

The options presented throughout this paper are purely illustrative. They are not government proposals or recommendations, but are presented to show some possible ways of changing current policy and to show the trade-offs involved in setting the annual budget.

Objective	*Option*	*Impact on Bottom Line 2001/02 ($ millions)*
		+ Means bottom line improves, – means bottom line gets worse
User Fees		
Save individuals and families up to $864 annually	• Eliminate Medical Services Plan (MSP) premiums	–$900
Eliminate other user fees	• Eliminate court fees and numerous other fees for government services	–$700
Raise health-related fees to recover a larger share of costs	• Increase MSP premiums to recover a larger portion of physicians' costs — a $6/$8/$11 increase for singles/ couples/ families	+$130
	• Increase residential care user fees by $1/ day	+$32
	• Increase supplementary benefits patient visit charge by $1	+$4
	• Gear all Pharmacare plans to income	+$80
	• Raise ambulance fees to recover 20 per cent of costs (from $54 to $108 per call)	+$9
Asset Sales		
Expand review and disposal of surplus assets	• Sell government and Crown corporation surplus land and other assets or business operations	Up to $50

B4. Spending Issues and Options

- The government must decide on increases in spending on priority areas, making cuts in other areas, or reducing taxes, while maintaining a balanced budget.

- The commitment to a balanced budget means that the larger the spending increase, the less that is available for tax cuts. However, spending reductions in lower priority areas may provide more money for tax cuts or increased spending in priority areas.

- Depending on the performance of revenue, and if there are no new tax cuts, ministry spending could range from $22.8 to $23.6 billion while a balanced budget is maintained (see Appendix). At the low end of the range, this would be a $900 million increase from 2000/01.

  — In September, the Legislature approved $290 million in additional health funding, which will absorb some of the available new spending dollars.

  — Government spending generally rises as the population grows (eg. higher school enrolment), and as inflation increases the cost of delivering services. For 2001/02, these added costs could total $600 million or more.

  — Combined, these could absorb all additional $900 million in revenue.

- The public expects that the government will place a high priority on protecting and enhancing social programs such as health care and education. As well, budget choices should promote continued economic growth and help to support a healthy environment.

- As noted in the options on the next page, increasing services in priority areas could require significantly more money.

Table 5:
SPENDING OPTIONS — Some Examples

The options presented throughout this paper are purely illustrative. They are not government proposals or recommendations, but are presented to show some possible ways of changing current policy and to show the trade-offs involved in setting the annual budget.

Objective	*Option*	*Impact on Bottom Line 2001/02 ($ millions)*
		+ Means bottom line improves, − means bottom line gets worse
Increase cancer surgery capacity	• Enhancing surgical capacity at 3 or 4 major hospitals would reduce cancer surgery waiting lists (permit cancer surgeries to be performed within 3 to 4 weeks)	−$13
Improve hospital care	• Increase nursing staff from 696 per 100,000 people to Canadian average of 748 nurses per 100,000 people. Requires 8 per cent more nurses. However, it is difficult to recruit and train nurses quickly	−$146
Reduce wait times for diagnostic tests	• Run 10 additional MRI (magnetic resonance imaging) machines. In addition to extra operating costs, a $30 million capital outlay is needed	−$8
Increase/decrease class sizes	• Change the pupil-teacher ratio in Kindergarten to Grade 12 by one student per class	+/−$100
Educate more/fewer nurses	• Add/subtract 1,000 seats for nursing at post-secondary institutions	+/−$12
Enhance high-tech education opportunities	• Add 1,000 seats for computer training at post-secondary institutions	−$8
Promote post-secondary education	• Increase student grants by $500 per student	−$30
Raise post-secondary tuition fees to national average	• Increase average university fees to $3,140 from $2,800 and college fees from $1,340 to $1,740	+$77
Focus education spending on children	• Eliminate adult education in the public school system	+$33

Table 5: — *Continued*
SPENDING OPTIONS — Some Examples

The options presented throughout this paper are purely illustrative. They are not government proposals or recommendations, but are presented to show some possible ways of changing current policy and to show the trade-offs involved in setting the annual budget.

Objective	*Option*	*Impact on Bottom Line 2001/02 ($ millions)*
		+ Means bottom line improves, – means bottom line gets worse
Increase crime prevention	• Add 100 police officers for smaller communities in British Columbia	–$10
Improve living standards for income assistance recipients	• Increase income assistance rates by 5 per cent ($33-$41 month)	–$85
Defer highway maintenance	• Cut highway maintenance spending by 5 per cent	+$20
Provide wage increase for public service employees	• Each 1 per cent wage increase for the public sector costs about $150 million	–$150
Cut government payroll	• Cut 1,000 public service jobs and service levels across the province	+$60
Protection of wildlife and their habitat, more parks management and better water and air quality monitoring	• Increase annual spending on management and protection of the environment	–$15
Increase reliance on volunteer groups' efforts to restore habitat	• Cut watershed restoration program	+$50
Eliminate agricultural income safety net	• Cut crop insurance and other income support programs	+$15
Reduce spending on forestry programs	• Eliminate pest management programs	+$17
Promote an active, healthier society	• 12 per cent increase in grants to 1,000 post-secondary athletes and over 60 sports and community organizations	–$1
Promote arts and culture	• 10 per cent increase in grants to the BC Arts Council and over 800 arts/cultural societies	–$1

B5. Capital Spending Issues and Options

- The province's buildings, roads and equipment ("capital") would cost $140 billion to replace.
- Each year, government must invest money in replacing worn-out facilities.
- In addition, new facilities must be built to meet the needs of a growing population.
- Taxpayer-supported[4] spending on buildings, roads and equipment is expected to total $1.6 billion in 2001/02, according to the multi-year capital plan included in the March 2000 budget (see the Appendix). Of this, $1.1 billion is in progress, leaving $500 million for new projects.
- The major projects are:
  - — Vancouver Island Highway
  - — Lions' Gate Bridge
  - — Port Mann Bridge/Cape Horn Interchange
  - — SkyTrain Extension Phase 1
  - — SkyTrain Fleet Expansion
  - — Prince George Regional Hospital
  - — Vancouver General Hospital
  - — Royal Jubilee Hospital
  - — Surrey Memorial Hospital
  - — Technical University of British Columbia
- Broad options in this area are to:
  - — Spend more or less
  - — Change the mix of spending (eg. more roads, fewer schools)
- Implications of choices in this area:
  - — Higher capital spending means more debt and in most cases higher ongoing operating costs for ministries and other agencies.
  - — Spending less or radically changing the mix of spending is difficult in the short run as many projects are underway or committed.
  - — Failure to maintain buildings, roads and equipment will eventually result in higher replacement costs.

[4] Excludes capital spending of commercial Crowns, for example BC Hydro dams.

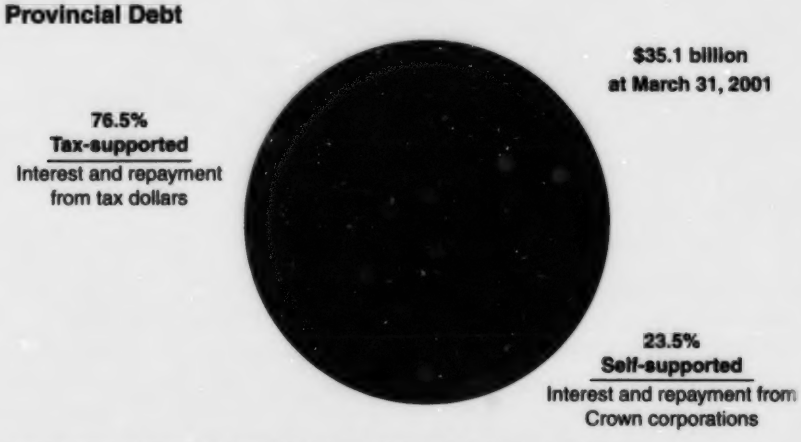
Table 6:
CAPITAL OPTIONS — Some Examples

The options presented throughout this paper are purely illustrative. They are not government proposals or recommendations, but are presented to show some possible ways of changing current policy and to show the trade-offs involved in setting the annual budget.

Objective	*Option*	*Impact on Debt 2001/02 ($ millions)*
		+ Means bottom line improves, − means bottom line gets worse
Support tourism in Lower Mainland	• $200 million provincial contribution to the proposed $495-million Vancouver Convention and Exhibition Centre	+$35
Meet health care needs	• Start new cancer clinic and acute care facility (full cost $200 million)	+$8
Improve educational opportunities	• Build 3,000 post-secondary spaces (full cost $100 million)	+$10
Replace older schools	• Rebuild 10 schools (full cost $60 million)	+$5
Upgrade one older prison	• Replace with new medium security facility (full cost $28 million)	+$1
Reduce traffic congestion	• Provincial contribution to new rapid transit lines, for example the $730-million Coquitlam line	+$5
Reduce capital spending	• Use portables to meet expected enrolment growth of 2,000 students (full saving $25 million)	−$6
Reduce capital spending	• Reduce upgrading of roads and bridges by 20 per cent	−$27
Reduce capital spending	• No new projects started in 2001/02	−$500

B6. Debt Issues and Options

- In 1999, the government said it would keep taxpayer-supported debt at between 22 and 27 per cent of provincial gross domestic product (GDP).
- The first *Quarterly Report* projects that provincial net debt will be $35.1 billion at the end of 2000/01. Taxpayer-supported debt will equal 22.2 per cent of GDP, at the bottom of the range set in 1999.
- Should debt increase or decrease in 2001/02?
- The answer to this question depends on the choices made about taxes and spending.
- Any government deficit and capital spending will require new borrowing, which will add to provincial debt. A government surplus would help to reduce the amount of borrowing needed to finance capital spending.
- In order to have no increase in debt, either government spending on new buildings, roads and equipment would have to be cut back, or government must run a surplus large enough to cover these needs.
- Another way of curbing debt is to eliminate loans to business. This could reduce debt by up to $75 million.



Source: Ministry of Finance and Corporate Relations, *Quarterly Report*, April – June 2000

- Relative to the size of the economy, British Columbia's taxpayer-supported debt is among the lowest of Canadian provinces. As long as debt grows at the same rate or less than growth in the economy, many consider that British Columbia's debt will remain affordable.

We want to hear what you think!

Fill in your answers to the questions on pages 28–30 and send them to:

Address: Office of the Clerk of Committees
Room 224
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Fax: 1-250-356-8172

Phone: Toll-free 1-877-428-8337 or collect 1-250-356-2933

E-mail: ClerkComm@leg.bc.ca

Or: Respond on the Web site www.fin.gov.bc.ca

For more budget and economic information, go to the "Reports and Publications" section of the Ministry of Finance Web site located at: www.fin.gov.bc.ca.

The Minister of Finance and Corporate Relations would like to hear your opinions on the following questions:

The government has committed to keeping the budget balanced in the next budget year (April 1, 2001 to March 31, 2002). Many British Columbians think the government should spend more on health care; many want more tax cuts. Any decisions on taxes and spending must offset each other if the budget is to remain balanced. Your answers to the following questions will help the government make decisions about the upcoming budget.

Please mark your answers with an "X" and write your comments in the spaces provided.

Question 1: Do you think the government should balance the budget in 2001/02?

YES ____ NO ____

Question 2: Should the government spend more money?

YES ____ NO ____ (go to Question 6) NO INCREASE OR DECREASE ____ (go to Question 9)

Question 3: In which areas do you think the government should increase spending?

____ Health care

____ Education

____ Income assistance

____ Justice (police, prisons, courts)

____ Highway upkeep

____ Parks/environment

____ Economic development (subsidies, loans, grants and other programs to encourage business expansion)

Other (please list)

_____

_____

Question 4: How much <u>more</u> should government spend on key services such as health care, education and income assistance? (1% more = $180 million)

_____ %

Comments: _____

_____

_____

_____

Question 5: How much more should government spend on areas such as justice (police, prisons courts), highway maintenance, parks and economic development? (1% more = $30 million)

_____ %

Comments: _____

_____

_____

Please go to Question 9.

Question 6: Where should spending be cut?

____ Health care
____ Education
____ Income assistance
____ Justice (police, prisons, courts)
____ Highway upkeep
____ Parks/environment
____ Economic development (subsidies, loans, grants and other programs to encourage business expansion)

Other (please list)

_____

_____

Question 7: How much less should government spend on key services such as health care, education and income assistance? (1% less = $180 million)

_____ %

Comments: _____

_____

_____

Question 8: How much less should government spend on areas such as justice (police, prisons courts), highway maintenance, parks and economic development? (1% less = $30 million)

_____ %

Comments: _____

_____

_____

_____

Question 9: Should taxes and fees be cut further, and if so, by how much? (1% of tax and fee revenue = $150 million)

YES ____ BY HOW MUCH? _____ %

NO ____ (go to Question 11)

Question 10: Which taxes or fees do you think the government should cut?

____ Personal income tax

____ Corporate tax

____ Sales taxes

____ Property taxes

____ User charges for services such as campgrounds

____ Medical Services Plan premiums

Comments: _____

_____

_____

Question 11: Spending on buildings, roads and equipment adds to government debt. Should the government increase or decrease spending on:

	Increase (Y/N)	Decrease (Y/N)
Schools	_____	_____
Colleges and Universities	_____	_____
Hospitals	_____	_____
Roads	_____	_____
Other transportation (eg. buses, SkyTrain)	_____	_____

Comments: _____

_____

_____

Thank You!

Economic Forecast:

Key components of the government's most recent economic forecast are summarized below. Further details are available on the ministry Web site in the *Quarterly Report* for April to June 2000.

September 2000 Economic Forecast: Key Indicators

	2000 Forecast	2001 Forecast
	Percentage change unless noted	
Growth in the economy (real GDP)[6]	3.0	2.7
Growth in nominal GDP	4.8	4.6
Employment	2.3	2.6
Unemployment Rate (per cent)	7.2%	7.2%
Housing Starts	−8.0	5.9
Retail Sales	5.2	3.1
Inflation Rate (per cent)	1.4%	1.2%

Source: Ministry of Finance and Corporate Relations, *Quarterly Report*, April to June 2000

Revenue Forecast:

Over time, government revenue grows roughly in line with nominal GDP. For example, when employment rises, total wage and salary income grows and more money is spent in the economy, generating additional income and sales tax payments. The relationship is not perfectly one-to-one because some components of the revenue base have not grown in line with nominal GDP — for example, federal transfer payments.

Policy changes such as tax reductions and one-time events such as asset sales can make the relationship between revenue and economic growth vary widely from year to year.

[5] Information in this document is consistent with economic data available as of October 20, 2000.

[6] Changes in real GDP measure the economy's growth rate. Nominal GDP measures real growth plus inflation. The following table shows the GDP estimate for 1999 and forecasts for the next five years.

	British Columbia GDP				
	2000	2001	2002	2003	2004
Nominal ($ billion)	121.0	126.5	130.9	135.2	140.1
% change	4.8	4.6	3.5	3.2	3.6
Real (1992 $ billion)	105.00	107.8	110.9	113.6	116.5
% change	3.0	2.7	2.8	2.4	2.6

Revenue Framework:

The following table shows the five-year revenue forecast based on the five-year economic forecast (above), with a range reflecting possible changes to the forecast as new information is incorporated. Data for 2000/01 are revised forecasts from the first *Quarterly Report*.

Revenue	**00/01**	**01/02**	**02/03**	**03/04**	**04/05**
Forecast Range ($ billion)	22.3	22.8-23.6	23.1-24.1	23.9-25.1	24.7-26.1

Expenditure Framework:

A five-year expenditure forecast range consistent with achieving a balanced budget is shown below. Data for 2000/01 are revised forecasts from the first *Quarterly Report*.

Expenditure	**00/01**	**01/02**	**02/03**	**03/04**	**04/05**
Forecast Range ($ billion)	21.9	22.8-23.6	23.1-24.1	23.9-25.1	24.7-26.1

Crown Corporations and Agencies Framework:

The government includes Crown corporations in its bottom-line. This means that the annual surplus or deficit equals the balance on government operations plus the net income of Crown corporations. (See chart in Section A1.) Over the five-year forecast horizon, combined Crown corporation net income is expected to be zero.

Crown Corporations Combined Net Income	**00/01**	**01/02**	**02/03**	**03/04**	**04/05**
Forecast ($ billion)	0.3	0	0	0	0

Deficit/Surplus Framework:

In line with government's publicly-stated commitments, the baseline projection is for the budget to remain balanced over the next five years. Different economic outcomes than projected would cause higher or lower revenue and expenditure outcomes, and more or less favourable Crown corporation results.

Deficit/Surplus Summary Accounts	**00/01**	**01/02**	**02/03**	**03/04**	**04/05**
Forecast	0	0	0	0	0

Debt Framework:

Debt consists of the following:

- the sum of deficits over time; and
- debt incurred by taxpayer-supported Crown corporations and agencies, largely to fund capital expenditures on buildings, roads and equipment[7].

In the 1999 budget, the government set a taxpayer-supported debt-to-GDP planning range of 22 to 27 per cent. The table below shows debt levels and the debt-to-GDP ratio, using the economic and fiscal forecast in the first *Quarterly Report* as a starting point.

	Debt				
	00/01	**01/02**	**02/03**	**03/04**	**04/05**
Total Debt ($ billion)[8]	35.1	36.9	38.5	40.0	40.7
Taxpayer-supported Debt/GDP (%)	22.2	22.6	23.1	23.4	23.1

Government cash balances, working capital needs and pre-borrowing can vary widely from year to year, causing debt to change independently of the underlying fiscal trend. The bottom line of zero over the five-year forecast horizon means no net debt will be added over the period as a result of budget deficits. This implies that the increase in taxpayer-supported debt would arise mainly from capital expenditures.

(On October 30, Statistics Canada was expected to release GDP data for 1999 and revised figures for previous years. These new figures will likely change the debt-to-GDP ratios for 1999/00 and earlier years, with the effects of the revisions carrying through into the forecast as well.)

[7] Capital Plan Framework: Taxpayer-supported debt includes borrowing to fund the capital plans of provincially-funded agencies such as schools and hospitals, B.C. Transit and the B.C. Transportation Financing Authority. The provincial capital expenditure plan is as follows:

Capital Plan Framework	
	$ billion
2000/01	2.1
2001/02	1.6
2002/03	1.6
2003/04	1.5
2004/05	1.4

[8] Based on the forecast of a balanced budget and the current capital plan framework.

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